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IN THE

Supreme Court of the United States

OCTOBER TERM, 1944.

No. 1194.

JOHN C. BLACK,

Petitioner,

vs.

RICHFIELD OIL CORPORATION,

Respondent.

PETITIONER'S REPLY TO RESPONDENT'S BRIEF.

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PETITIONER'S REPLY TO RESPONDENT'S BRIEF.

To the Honorable Chief Justice and Associate Justices of the Supreme Court of the United States:

Your Petitioner respectfully presents this reply to respondent's brief herein:

I.

Respondent Misconceives the Holding in Consolidated Gas & Elec. L. & P. Co. v. United Rys. & Elec. Co., 85 Fed. (2d) 700; (Cert. Denied 300 U. S. 663, 81 L. Ed. 871).

Respondent states (its Br. p. 15, line 13) that the *Consolidated Gas Co.* case, *supra*, "*merely holds that a claim for damages for rejection of an executory contract does not arise within the meaning of the Bankruptcy Act until the contract has been rejected by the trustee,*" and that

"such holding is not in point here." In this respondent is mistaken.

In that case (p. 804) the Court stated the broad question presented as follows:

> *"It is suggested that one who is party with the debtor to an unrejected executory contract is possessed of an interest of a definite character and is therefore a holder of a claim against the debtor; that is, he becomes a creditor clothed with the rights and duties imposed upon creditors by the terms of the act. Hence it is contended that the holder of such a contract must file it as a claim in the proceeding, and see to it that he is specified in the plan as a creditor, not affected thereby as provided in subsection* (b) (7), 11 U. S. C. A., section 207 (b) (7), *or else upon confirmation the plan will be binding upon him under subsection* (g), 11 U. S. C. A., section 207(g), *and, moreover, all of his rights under the contract will be lost* * * *."

It is clear from this statement that the *creditor status* there suggested *is not limited* to a status created by the *rejection* of an executory contract. It is a status created by the fact of an outstanding executory contract and subsists throughout the pendency of those proceedings, and independently of any rejection of the contract. The suggestion is that *"the holder of such a contract must file it as a claim in the proceeding, and see to it that he is specified in the plan as a creditor not affected thereby."* Under the suggestion there made, the rejection of an executory contract simply changes the nature of the claim which, it

was suggested, the holder of that contract was required to file. In other words, the suggestion is that the holder of an *unrejected* executory contract must file his contract as a claim in order to preserve his equities under it, and, conversely, if the contract is *rejected* he must file his claim for damages for such rejection.

In rejecting that contention, the court said (p. 804):

> *"But we think that these conclusions are not sound. Other statutory provisions convince us that a claim under an executory contract does not arise within the meaning of the act until the contract has been rejected."*

In stating its reasons for rejecting those suggestions, the court said (p. 805):

> *"the trustees of the debtor rather than the other party should take the initiative to determine the future status of the contract.*
>
> *"Section 77B, on the other hand, does not contemplate the surrender and sale of the debtor's assets, but rather the transfer of the property, including executory contracts and leasehold estates not affirmatively rejected, to a reorganized body for the continuance of the business. An executory contract, therefore, remains in force in a proceeding under section 77B until it is rejected, and unless rejected, it passes with other property of the debtor to the reorganized corporation."*

The authors of the text in section 860 of the title "*Bankruptcy*" in Vol. 8, C. J. S., at page 1829, under-

stood, as the text clearly reveals, that the Fourth Circuit Court held in the *Consolidated Gas, etc. Co.* case, *supra*, that an executory contract need not be filed by the holder thereof in proceedings under section 77B, and that no claim for the determination of its status in those proceedings need be filed, unless and until the contract is rejected, and that in the absence of such rejection, such a contract passes to the rehabilitated debtor—the reorganized corporation, in the same condition in which the debtor and the trustee held it.

The author of Gerdes on Corporate Reorganizations, Vol. 2, section 715, page 1178, takes the same view of the broad holding of the Fourth Circuit Court in that case. Such was also the view of the Supreme Court of Arkansas in *Ark. Fuel Oil Co. v. Pace,* 202 Ark. 52, 57, 59.

Within our knowledge, it has not been suggested anywhere, at any time, by anyone, other than by respondent in its brief here (p. 15, line 13), that this decision of the Fourth Circuit Court *"merely holds that a claim for damages for rejection of an executory contract does not arise within the meaning of the Bankruptcy Act until the contract has been rejected by the trustee."* The very obviousness of the conclusion that a *"claim for rejection"* does not arise until a *"rejection"* has occurred negatives the idea that such a simple problem was the substance of the extended opinions of the Fourth Circuit Court upon the hearing and a rehearing in that case.

II.

Certiorari Is Proper and Necessary to Correct Error in the Conception and Application of State Law By a Federal Circuit Court When Such Error Is Substantial and the State Law Is Controlling:

Respondent states (its brief page 5, line 26) that error in the application of state law is not a ground for certiorari. It cites *Ex Parte Woods,* 143 U. S. 202; 36 L. Ed., 125, 126, as its authority. The case does not support the statement. It holds only that certiorari will be denied where the claim of error does not present a sufficiently grave question. Respondent's position is expressly negatived by Rule 38, Subd. #5, A. B., 28 U. S. C. A. 354.

The error here in the majority opinion of the Circuit Court, in its conception of the California rule of interpretation, is deserving of very serious consideration, not only because of its great importance in the case at bar, but because of its even greater importance in federal administration under the rule of *Erie Railroad Co. v. Tompkins,* 304 U. S. 64.

The frequency with which our courts are called upon to interpret writings, and the very great importance of the proper exercise of this power in our economic life, render it imperative that, under the rule of *Erie Railroad Co. v. Tompkins, supra,* the laws of a state shall not be interpreted and applied in our federal tribunals in contradiction of their interpretation and application by the appellate courts of that state.

III.

There Is No Serious Denial of Our Claim That in the Case at Bar the Circuit Court Has Misconceived the California Rule of Interpretation.

In our petition, at pages 22 to 28, incl., we affirmed that in the case at bar, there is a clear contradiction between the holding of the *majority* opinion of the Circuit Court and the holdings of the appellate courts of California as to the importance of the *"literal sense"* of language in the interpretation of a writing.

The Circuit Court, by its majority opinion, has held that in the interpretation of a writing under California law, an intention which may be deduced from the *"literal sense"* of the language used, must prevail over the actual intention of the parties as found by the trial court, even though such actual intention is not repugnant to the language used.

The appellate courts of California have held, uniformly, that the real intention of the parties must be given effect where such intention *"is not wholly at variance with the correct legal interpretation of the terms of the contract* (*Universal Sales Corp. v. Cal. etc. Mfg. Co.*, 20 Cal. (2d) 751, 762); *"that this duty remains even though another and different intention is also readable therefrom* (*Lemm v. Stillwater, etc.*, 217 Cal. 481), and that the *practical construction* placed upon the contract by the parties themselves *"renders it immaterial to consider what might be the literal construction of its terms* (*Mitau v. Roddan*, 149 Cal. 1, at page 14).

Respondent has not met this challenge. It has not referred to any of the cases which we cited. It has not directed attention to any opposing authority otherwise

than by saying (its brief, page 5, line 24) that the decisions cited by the District Court and the Circuit Court clearly support the rulings below.

In our petition (pages 25 and 26) we reviewed those decisions and, as we believe, clearly showed that they do not oppose the rule for which we contend. Respondent has not mentioned that review. It has not sought to show by analysis, argument, or authority, anything in any of those decisions which in any way tends to support this erroneous conclusion of the Circuit Court.

We respectfully submit that the persuasively conclusive statements and holdings in the California decisions to which we have referred, fully confirm the *dissenting* conclusions of Circuit Judge Stephens who for many years was a highly esteemed member of the California Appellate Judiciary, and clearly manifest the error we assert and respondent is not able to deny, in the majority opinion, of the Honorable Ninth Circuit Court.

The failure of the author of this contract (the licensee's attorney) to say that this license is limited to those specific embodiments of Black's cracking inventions contained in the enumerated patents and applications, is a clear indication that he did not intend by this writing to deprive his client of the rights to use, under an *implied license* for the use thereof, such other embodiments of the basic invention there revealed, as Black might have conceived theretofore, or might thereafter conceive, and for which he might have sought, or might seek patent protection under applications for patent other than those serially enumerated.

The implied license to which we refer is the license, implied by law from the grant of a license to use a basic invention, to use without any further contract, every

adoption of that invention which the inventor might conceive. The implied license here rests *upon* the *facts* that the basic invention of this Application No. 599,403 is the same basic invention revealed in the *enumerated* Application No. 596,837 and that the claims of this Application No. 599,403 simply represent additional embodiments of that basic invention.

The law is that in such circumstances a license to use the inventions of the later application *is implied* from the grant of a license to use the basic invention common to both applications *unless it appears beyond doubt* that the parties actually intended to limit the express grant to the *specific embodiments* of that basic invention as they then appeared in a pending application, or patent. (*Swan v. Gen. Motors Corp.*, 42 Fed. (2d) 452; *Harvey v. United States*, 196 U. S, 310; *Edison Elec. Co. v. Penisular Light, Power & H. Co.*, 95 Fed. 669, affirmed 101 Fed. 831; *Victory Bottle Capping Co. v. O. and J. Mach. Co.*, 280 Few. 753.)

The failure of this contract to say that this grant is limited to the specific embodiments of Black's inventions contained in said enumerated patents and applications, results, under the above authorities, in the preservation of the licensee's implied license to use the inventions of this application No. 599,403.

It is settled California law, in the interpretation of contracts, that where a certain intention is claimed and *"it would have been a simple matter to have so provided in plain terms,"* but *such intention was not so stated*, then *an uncertainty arises* upon the fact of the instrument, which may be settled by recourse to evidences of actual intention. (*Universal Sales Corp. v. Cal. etc. Mfg. Co.*, 20 Cal. (2d) 751, 770, line 22.) An intention to waive

this implied license is not stated in this writing in plain terms. It is not stated at all. Therefore, under the rule stated, in the presence of respondent's claim that the license is limited to the embodiments of inventions disclosed in the enumerated patents and applications, *which is a denial of the implied license,* the court must ascertain and give effect to the actual intentions of the parties.

IV.

Petitioner Does Not Seek a Review of Any Finding of Fact Which Rests Upon Conflicting Evidences. He Seeks Relief Only From Unsound Conclusions of Law.

Respondent affirms (its brief, page 5, line 16) that this Honorable Court will not review concurrent findings, on certiorari. It cites *Gen. Talking Pictures Corp. v. Western Elec. Co.,* 304 U. S. 175, 178; 82 L. Ed. 1273-75. That case only affirms the rule, applicable generally upon appeals, that a trial court's finding of fact based upon *conflicting* evidences will not be reexamined upon an appeal.

Your petitioner does not seek any such review here. The conclusion of the District Court, affirmed by the majority opinion, and rejected by the dissenting opinion, of the Circuit Court, that the writing involved here is clear and certain in its identification of its subject matter, is not that kind of a finding. It is settled law that the conclusion to be drawn from undisputed evidences presents a question of law, not of fact. (*Brant v. Calif. Dairies,* 4 Cal. (2d) 128, 133; *Wachs v. Wachs,* 11 Cal. (2d) 322, 325.) Within this rule the interpretation of a writing, in the absence of conflicting evidences of actual intent, presents a question of law, not of fact, and therein

an appellate court is not bound by the conclusions of the trial court. (*Bragg v. Martenstein*, 25 Cal. App. 199, 205) but, as a matter of law, it will examine the writing and draw its own conclusion.

The conclusion that this writing is clear, positive, and certain upon its face is unsupportable. Clearly, a writing whose language is receptive to opposing conclusions, one derived *inferentially* from the language alone, and the other derived from that language viewed in the light of the actual intention of the parties and their conduct under it for many years, is not clear, positive, and certain. An intention to be *"clear," "positive,"* and *"certain,"* must be expressed *"without qualification, limitations,* or the like." It must be *"unqualifiedly expressed, admitting of no doubt, condition, qualification, or discretion."* It must be so expressed that it is *"not to be doubted or denied; * * * indubitable; indisputable."* (*Webster's New Intern. Dict.*, p. 413, note 9b; 1679, note 1; p. 361, note 3.)

Since this writing *does not say* that its grant is limited to the inventions of the enumerated patents and applications, but, at length, describes the *nature* and *character* (i.e., the *"kind," "species," "sort,"* and *"quality"*) of Black's cracking inventions, and then expressly extends the grant to all of the *"above mentioned inventions, processes, and apparatus,"* it is a logical and legal absurdity to conclude that the parties by their writing have conclusively evidenced an intention to limit the grant to *less than all* of the *"above mentioned"* inventions. (*Universal Sales Corp. v. Cal. etc. Mfg. Co.*, 20 Cal. (2d) 751.) Clearly, *"the above mentioned inventions"* include those of the class described, whether or not included in the enumerated patents and applications which are referred to (as

the writing says) for particulars in respect of the *"nature"* and *"character"* (*i. e.*, the *"kind," "sort," "species,"* and *"quality"*) of Black's inventions.

In another respect, the composition of this grant clearly indicates that the parties did not intend to limit this grant to the specific inventions of the enumerated patents and applications. This inference rests upon the facts: that (1) *the grant is as to* "any and all of the above mentioned inventions, processes and apparatus and *any and all improvements thereto* and inventions of a similar nature which may be hereafter made by licensor"; and (2) *the inventions of this application* (No. 599,403) *are improvements* of Black's enumerated Patent No. 1,426,813. [Tr. Vol. IV, p. 1195.]

It is a reasonable inference that the words "any and *all improvements thereto,"* as used in this phrase, *comprehend improvements theretofore made,* and are not limited to future improvements by the words *"hereafter made"* which appear at the end of that granting clause. The *absence of punctuation* in said quoted phrase *does not destroy* this inference. It is settled law that *"punctuation, at best a most fallible guide, is always subordinate to the text and is never allowed to control its meaning."* (Cal. Jur., Vol. VI, Sec. 170, p. 276.) Our conclusion is confirmed by the application of the well settled canon of construction that *"a limiting clause is to be restrained to the last antecedent, unless the subject matter requires a different construction."* (*Cushing v. Warwick,* 9 Gray (Mass.) 382; *Puget Sound Elec. Ry v. Benson,* 253 Fed. 710, 711; *County of L. A. v. Graves,* 210 Cal. 21, 26; *Corpus Juris,* Col. 59, p. 985.) In the grant in the case at bar, the limiting phrase *"which may be hereafter made"* is preceded by two antecedents. These, and

their position in that sentence, are *"all improvements thereto"* and *"inventions of a similar nature."*

Under this rule of antecedents, therefore, the limiting phrase *"which may be hereafter made"* is restrained to the immediately preceding antecedent *"inventions of a similar nature"* and does not extend to the *earlier* antecedent *"all improvements thereto"* unless it may be said that the subject matter requires a different construction. Here the subject matter does not require a different construction. It definitely approves that construction as herein shown. Thus considered the inventions of this unenumerated application and patent *are* of the subject matter of the grant *because,* definitely, *they are improvements* upon the invention of the *enumerated* Patent No. 1,426,813. It is so stated on the face of the patent issued on this application No. 599,403, and *they were made prior* to the execution of this contract.

V.

Respondent Is Not a Mere Assignee Who Holds His Estate Free of the Burdens Incident to an Assumption. Respondent Expressly Assumed This Contract and Holds Its Estate Cum Onere, as Did the Debtor.

Respondent's statement and citation of authority at page 9, lines 14 to 24, of its brief, to the effect that an assignment of a contract does not cast upon the assignee any of the obligations imposed by the contract, unless the assignee assumes performance, must not be permitted to confuse respondent's status here.

Respondent succeeded to this contract by an agreement, and an order of the Court, whereby it *expressly assumed* and *agreed to perform* all of the obligations of this con-

tract. By this conduct a "*privity of contract*" was created (*Words and Phrases*, Vol. 33, page 810), and respondent holds this contract in the same condition as though it were an original party to it. The rule is stated by the Supreme Court of California in *Drips v. Moore*, 179 Cal. 249, 252, as follows:

> "Moore, having by assignment acquired the contract and claiming the benefits thereof, *was subject to its burdens as fully and to the same extent as though he was the original party to it.*"

VI.

The Contract Which Respondent Assumed Is the Contract as it Would Have Been Interpreted or Reformed in the Hands of the Debtor.

Respondent argues (its brief, pages 9 and 10) that the contract it assumed is limited to the terms of the agreement as they then appeared upon the face of the writing. Respondent does not cite any authority to sustain its position, and it does not make any mention of the several decisions of this honorable court and of several of the circuit courts, presented in our petition (pages 19 to 21, incl.) which clearly and conclusively refute respondent's contention.

It is settled law that the constitutional limits within which an executory contract may be dealt with in bankruptcy proceedings permit only of an affirmance or rejection. When affirmed, it is affirmed *in toto*. When rejected, it is rejected *in toto*. (*Eames v. H. P. Chaflin Co.*, 220 Fed. Rep. pp. 190-191; *Atchison, T. & S. Fe Ry. Co. v. Hurley*, 153 Fed. Rep. 503, 510; *Gerdes on Corp. Reorgan.*, last para. of Sec. 714, p. 1178.) In the *Eames* case, *supra*, the Court said: "If they rejected it, it remained an asset of the corporation; if they accepted it, *they took it cum onere*." In the *Atchison* case, *supra*, at page

510, the Court said: "*If they elect to assume such a contract, they are required to take it cum onere, as the bankrupt enjoyed it, subject to all its provisions and conditions, 'in the same plight and conditions that the bankrupt held it.'* * * *" Any valid modification of a written contract which may have been made by the bankrupt before adjudication, whether oral or in writing, and *whether known or unknown* to the trustees, are binding upon them if they elect to assume and perform the contract. *They take it subject to all equities between the original parties.* * * * *The duty rests upon the trustees to make inquiry and ascertain the true nature, character, and conditions of the contract before exercising their election.* When the election is made to assume it, where no fraud has been practiced upon them, *they stand in exactly the same situation as the bankrupt himself stood* prior to the adjudication."

The honorable Ninth Circuit Court, by its majority opinion in the case at bar, has approved respondent's contention, and in so doing, it, likewise, has completely ignored those applicable and controlling authorities, and has not referred to any authority to support that position.

We submit that this question is not one of first impression, which may be thus resolved by the simple expedient of original decision. The question is governed by the doctrine of *Stare Decisis*. The clarity and conclusiveness with which it has been held, uniformly heretofore, that one who thus assumes and agrees to perform an executory contract, thereafter holds that contract in exactly the same condition as did the original party, necessarily precludes any authoritative repudiation of that principle by a court of inferior jurisdiction. The repudiation declared by the decision here criticised furnishes a compelling reason for the review of this case by this honorable Court.

VII.

The Doctrine That Respondent Stands in the Shoes of the Debtor and Holds This Contract Subject to All Equities, Precisely as Did the Bankrupt, Does Not Rest Upon Respondent's Knowledge of Those Equities.

Respondent argues (its brief, p. 7), *without any citation of authority*, that it is not bound if the contract is interpreted or reformed to include the inventions of this application No. 599,403, to pay any royalty for the use of these inventions, because it had no knowledge or notice of such inclusion when it assumed this contract. The Ninth Circuit Court has approved this contention.

The position is patently unsound. It is opposed to every statement of the applicable rule which we have found in text and case. Indisputably, the obligations and liabilities which stem from the assumption does not rest on notice of the equities to which the writing is subject. The rule is, as stated by the Eighth Circuit Court in *Atchison, T. & S. Fe Ry. Co., v. Hurley*, 153 Fed. 503, 510, that it is the duty of a trustee in bankruptcy *"to make inquiry and ascertain the true nature, character, and conditions of the contract"* before assuming it, and that when the contract is assumed, it is held subject to all valid equities *"whether known or unknown"* to the trustee. This rule was also declared by this honorable Court in *Thompson v. Fairbanks*, 196 U. S. 516, 49 L. Ed. 577.

Respondent, under its contract of assumption and the Order of Confirmation, expressly assumed the burdens of the trustee under this contract. It stepped into the shoes of the trustee. It is bound, therefore, as was the trustee, by all equities, whether known or unknown.

VIII.

Respondent Is Not an Innocent Purchaser:

Respondent, the reorganization corporation, is not an innocent person. It is simply a reorganized debtor which is composed of the bondholders, other creditors, and stockholders, of the debtor. (*Pickering Lumber Corp. v. Whiteside*, 49 Cal. App. (2d) pp. 200, 210, 211, 213.) It received this contract under a plan whereby the properties of the debtor "were committed to the custody of a court until the time should arrive *when they could be returned to the rehabilitated debtor*, or if that should be impossible, divided among creditors." (*Duparque, etc. v. Evans*, 297 U. S. 216, 80 L. Ed. 591, 593.) In the case at bar, this contract was *"returned to the rehabilitated debtor*—respondent. *It stands in the shoes* of the debtor and it succeeded to this position *cum onere*. The "knowledge of the debtor" is the *"knowledge"* of respondent. The *"plights and infirmities"* of the debtor are the *"plights and infirmities"* of the respondent. It is charged with *knowledge of the law*, and *the law is* that *in the absence of its rejection*, an executory contract passes to the rehabilitated debtor, the reorganization corporation, *"not as an innocent purchaser*, but *as the debtor had it at the time of the petition, subject to all valid claims, liens, and equities."* (*Zartman v. First Nat. Bk.*, 54 L. Ed. pp. 419, 420; *National Bank etc. v. Williams*, 31 Cal. App. 705, 707.)

Those who invested money in respondent are not innocent parties. They purchased with their eyes open, with full knowledge of the law, and uninfluenced by any fraud or misrepresentation. They *could not* and *did not* acquire any rights superior to that of the corporation in which

they invested. They could have inquired of Black to ascertain what, if any, outstanding equities there were in his favor. *This they did not do.* They chose to invest blindly in a corporation *which stood in the shoes* of the debtor. Their disadvantage, if any, is the result of their own negligence. (*Sherwood v. Robertson,* 48 Cal. App. 208, 211.) It is not in anywise the fault of Black, this petitioner. He had no suspicion of the challenge of this suit. Everyone's conduct comported fully, and always had, with the understanding that the inventions of this license included the inventions of this Application No. 599,403. No one challenged this until sixteen months after the conclusion of these reorganization proceedings. In these circumstances, Black was without fault, and these investors are not innocent. (*Amer. B. M. Co. v. Ind. Ins. Co.,* 214 Cal. 608, 614.) To conclude otherwise would be to say that a corporation may avoid its clear liability for the reformation of an executory contract it has acquired and assumed, by the simple expedient of selling some of its capital shares. Such is not the law.

Independently of the foregoing, respondent had such actual knowledge of facts (our Petition p. 9) as charged it with a duty to inquire, and, hence, with constructive knowledge of the facts such an inquiry would have adduced. Section 19 of the Civil Code of California provides that *"every person who has actual notice of circumstances sufficient to put a prudent man upon inquiry as to a particular fact, has constructive notice of the fact itself in all cases in which, by prosecuting such inquiry, he might have learned such fact."* The interpretation and application of this section to the practice of men in the market place is declared in many cases. The cases of

Barthelmess v. Cavalier, reported in 2 Cal. App. (2d) at p. 477, and *Olson v. Cornwell*, 134 Cal. App. 419, are in point and controlling here. In the *Olson* case, *supra*, at page 428, the court said:

> "* * * Whenever a party has information or knowledge of certain extraneous facts which of themselves do not amount to or tend to show actual notice, but *which are sufficient to put a reasonable man upon inquiry* respecting a conflicting interest, claim or right, and the circumstances are such that the inquiry, if made and followed up with reasonable care and diligence, would lead to the discovery of the truth or to a knowledge of the interest, claim or right which really exists, *then the party is absolutely charged with constructive notice of such claim or right.*"

The facts of which respondent had notice (*supra*) *prior* to its consummation of the plan of reorganization under Section 77-B, were sufficient under the foregoing authorities to charge any prudent person *with a duty to inquire as to what right the bankrupt, and its trustee,* had to use these chrome alloy inventions in their Watson cracking plant, in view of the patent that had issued in 1931 upon Black's Application No. 596,837, and the decision in December, 1936, which declared the patentability of Black's invention revealed in his companion application No. 599,403. In these circumstances respondent is not an innocent person.

IX.

The Order of Confirmation Does Not in Law or in Fact Foreclose the Reformation of This Writing in the Hands of Respondent:

Respondent urges, and the Ninth Circuit Court has affirmed, that the Order of Confirmation in the licensee's reorganization proceedings bars a reformation of this writing to conform to the actual intentions, understandings, and conduct of the parties, as found by the trial court. We have heretofore shown by applicable authority which respondent does not mention, that such a bar does not arise as a matter of law. In these circumstances any statement, of a bar, if such there were, in this order, would be legally ineffectual.

But the Order of Confirmation does not, either expressly or impliedly, evidence such a bar. A careful examination of the numerous orders, petitions and notices in those proceedings, clearly demonstrates that *the Court did not make any order* which, in terms, or in spirit, precludes the prosecution of this suit for an interpretation, or modification, of this contract.

Upon the contrary, the injunction contained in the order confirming the plan of reorganization, is *expressly limited* to *"any liability on or in respect of any matter adjudicated by this order."* [Stip., Exh. 22, pp. 2 and 3.] *The matter of the interpretation, or reformation, of this contract was* NOT *"adjudicated by this order."*

These matters of interpretation and modification were not even raised in said proceedings. In fact *they could not have been raised* in said proceedings, or otherwise, *in the absence of an actual controversy* respecting the

proper interpretation of this contract. (*Borchard on Declaratory Judgments*, p. 36, lines 25 to 34; *Gabriel v. Bd. of Regents* (Colo.), 267 Pac. Rep. 407, 408.)

Such a controversy was not foreshadowed, and did not arise, until more than one year after respondent had expressly assumed this contract. Throughout the entire period of the receivership and trusteeship preceding the express assumption of this contract by respondent, the receiver and trustee fully performed this contract. There was no controversy until more than eighteen months after respondent succeeded to the estate of the licensee under this license. Throughout the period of said bankruptcy and reorganization proceedings, everyone assumed that the inventions of this application were of the subject matter of this grant. If this respondent assumed to the contrary (which it does not say) it carefully avoided even an appearance of raising that question, notwithstanding its continuing use, and its knowledge of the bankrupt's prior use, of those inventions, until eighteen months after the close of the bankruptcy proceedings.

It is clear, therefore, that the Order of Confirmation *could not*, and *did not*, preclude any right of reformation incident to this *unrejected* executory contract. This order wherein it says (App. Br. p. 52, line 1) that "the property dealt with * * * when transferred to the debtor or the other corporation * * * provided for by the plan,* * * shall be free and clear of all claims of the debtor, its stockholders and creditors," *also says "except such as may consistently with the provisions of the plan be reserved * * *."*

There is nothing inconsistent with the *"plan"* in the assumption of an executory contract by the reorganized

debtor subject to all equities including the preservation of the *right of the other party thereto to reform* the contract if, as, and when, the need arises and is known. The consistency of such preservation is implicit in the fact that the reorganization corporation, which is nothing more or less than the *rehabilitated* debtor, in its succession to this contract *stands in the shoes of the debtor*, and holds this contract "in the same plight and condition that the bankrupt himself held it, and subject to all the equities impressed upon it in the hands of the bankrupt." (*Amer. Service Co. v. Henderson*, 120 Fed. (2d) 525, 530), and other cases heretofore cited.

X.

There Is No Element of Laches in Petitioner's Conduct:

Respondent urges (its brief, page 8, line 13) that your petitioner was guilty of laches in his failure to discover the omission of the serial number 599,403, and the necessity for its inclusion, if such there were, in said license contract. It bases this claim upon the fact that about three months after this license was granted, Black sold his inventions, subject to this license, to the Gasoline Products Company (but reserved his rights under this license), and that in the transfer papers this serial number was enumerated.

Respondent argues that because that number was included in those transfer papers, your petitioner, for some unstated reason, was put on notice that perhaps this number was not included in the numbers enumerated in this license contract. We are unable to see any such connection between those incidents which in any way tends to

support that conclusion. The findings of fact by the trial court deny any such connection wherein the court found [Tr. p. 169, lines 6 to 12, incl.; p. 176, lines 5 to 8, and Finding 15, p. 181] that the facts fully justified a reformation of this writing if it could be done without prejudice to rights acquired by innocent third persons.

There was nothing in these circumstances to arouse a suspicion that this number was omitted in the license writing, or that the pattern of that writing required its inclusion if these inventions were to be included in the license. In these circumstances your petitioner was under no legal duty to inquire, and his failure to inquire was not laches. (*Tarke v. Bingham*, 123 Cal. 163, 166.)

XI.

The Equities of This Case Are Clearly With This Petitioner.

Respondent states (its Br. p. 7, line 22) that the equities of this case are with it. If the fact is of any importance, it is obvious that the equities strongly favor your petitioner and disfavor respondent.

Any understanding comparison of that which Black *gave* and that which Black *seeks*, and of the positions of the parties here, must inevitably confirm the unimpeachable justice of his claim.

THAT WHICH BLACK GAVE:

Up to the time this contract was made Black had conceived more than 140 inventions that were useful in cracking petroleum. These included his important discovery that chrome alloy was resistant to the influence of sulphur in petroleum under cracking conditions, and that

its use in a cracking container would substantially eliminate the hazards to life and property then incident to cracking operations, and would permit the use of higher temperatures and pressures, with a substantial improvement in the quantity and quality of the gasoline produced. This discovery was of such fundamental importance that its use has become standard practice in the petroleum cracking industry under licenses granted under Black's patents. It is one of the most important contributions to the art of producing high octane gasoline for the armed forces.

In addition to these, Black was the owner of more than 75 inventions which he had conceived and which were useful for purposes other than cracking in a refinery operation. These non-cracking inventions ranged the whole field of refining operations, including the distillation of oil, the production and refining of lubricating oil, the refining of gasoline, and the production of asphalt. They are now standard practice in refining operations.

Under the contract as made, *Black gave* the right to use *all of his cracking inventions,* together with any similar inventions which he might thereafter conceive, upon the payment of a royalty which was *less than one-fourth* the rate at which royalties were then currently paid in the industry. He also gave the right to use *royalty free,* all of his non-cracking inventions and any similar inventions which he might thereafter conceive.

Under this contract, the licensee, in its uncontrolled discretion, may relieve itself, periodically or permanently, from any further liability for the payment of royalty upon any of these cracking inventions, *simply by the discontinuance of its use* of such invention. The use by the

licensee, *royalty free*, of Black's multiple non-cracking inventions is not impaired by its discontinuance of its use of Black's cracking inventions.

Between the making of this contract and the trial of this cause *Black conceived* about 175 additional cracking inventions and about 39 non-cracking inventions, each of which automatically became a part of the subject matter of this license without any increase in the licensee's royalty duty.

Under this contract, *Black revealed* completely and continuously to the licensee the products of his fertile inventive mind, and cooperated fully in the licensee's reduction of these inventions to practice and in the procurement of patent protection thereon.

THAT WHICH BLACK SEEKS:

For that which he gave, Black seeks to recover *only the royalty which the licensee agreed to pay*, and which is unpaid for the period of this respondent's operations since August 19, 1938. Significantly, this royalty is computable at a rate which is substantially less than the rate currently paid in the industry.

THE POSITIONS OF THE PARTIES HERE:

Black seeks to recover upon the contract *upon which the minds of the parties actually met*, as found by the trial court.

The contract as made, was made freely, fairly, with full knowledge, and upon the solicitation of the licensee. The writing which was executed in evidence of this grant, was prepared by the licensee's attorney. Black was not represented by counsel. This is the contract which *the parties*

always understood and believed they had not imperfectly evidenced by their writing of September 15, 1925. *It is the contract to which the parties conformed their conduct consistently through the twelve years which intervened between its making and the advent of this respondent.* It is the contract to which the conduct of this respondent fully conformed during the sixteen months which followed its succession to, and assumption of, this contract. It is the contract because of which the licensee during the long period of its use of the inventions of this Application No. 599,403 *enjoyed an immunity from the common law liability for the use* of an unpatented invention. (Civ. Code, Sec. 980; *Hollywood Motion Picture Equip. Co. v. Furer*, 16 Cal. (2d) 180, 184, 189.) It is a contract *whose subject matter is entirely consistent with the language* of the writing of September 15, 1925.

Respondent seeks to avoid its liability upon the plea that the parties *imperfectly* reduced their actual agreement to writing and that it should not be bound by the actual agreement. This plea ignores the facts of its continuing use of these inventions, and that, under settled law, *it stands here in the shoes of the orginal licensee* and holds this contract *in exactly the same condition* as did the bankrupt (*Zartman v. First Nat. Bk.*, 54 L. Ed. 419, 420; *Greif Bus. etc. v. Mullenix*, 264 Fed. 391, 397; *Hurley v. A. T. S. F. Ry.*, 213 U. S. 126; *Eames v. H. P. Claflin Co.*, 220 Fed. 190, 191; *Schultz v. England*, 106 Fed. (2d) 764, 768; *Gerdes on Corp. Reorg.*, Sec. 714, page 1178.)

Respondent seeks to avoid its liability upon the ground that Black failed to file a claim in the licensee's reorganization proceedings, notwithstanding (a) that throughout the period of those proceedings the law was, as declared

by the Fourth Circuit Court in the *Consolidated Gas Co.* case, *supra* (Cert. denied), that a claim does not arise upon an unrejected executory contract, and (b) that *Black had no knowledge* that it would ever become desirable to reform this writing to more clearly express the actual intentions of the parties, and to negative the specious plea conceived by this respondent sixteen months after the close of those proceedings and belied by the conduct of all the parties, including this respondent, during the preceding twelve years.

Clearly, therefore, in legal contemplation and in good morals, *Black seeks no more* than that which this respondent by its assumption of this contract has agreed to pay; while by a plea denied by all applicable authority, respondent seeks to evade the burdens of a contract which it has assumed, while it continues to enjoy the benefits of that contract.

We respectfully submit that the pending petition should be granted.

JOHN W. PRESTON,
OLIVER O. CLARK,
IRVING M. WALKER,
Attorneys for Petitioner.

Service of the within and receipt of a copy thereof is hereby admitted this.....day of May, A. D. 1945.

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5-18-45—55